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Audited Financial Statements of the Departmental Offices for Fiscal Years 2002 and 2001

OIG-03-020 November 21, 2002

Office of Inspector General

****

The Department of the Treasury

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

November 21, 2002

MEMORANDUM FOR **BARRY HUDSON**
ACTING DEPUTY CHIEF FINANCIAL OFFICER,
DEPARTMENT OF THE TREASURY

FROM: William H. Pugh, William H. Pugh
Deputy Assistant Inspector General
for Financial Management and Information
Technology Audits

SUBJECT: Audited Financial Statements of the Departmental Offices for Fiscal Years 2002 and 2001

I am pleased to transmit the audited financial statements of the Department of the Treasury's Departmental Offices (DO) for Fiscal Years 2002 and 2001. These statements are incorporated in the attached *United States Department of the Treasury Departmental Offices Fiscal Year 2002 Financial Statements.* DO's financial statements were audited by KPMG, LLP, an independent public accountant (IPA). The IPA issued the following reports, which are included in the attachment:

- Independent Auditors' Report on Financial Statements;
- Independent Auditors' Report on Internal Control over Financial Reporting; and
- Independent Auditors' Report on Compliance with Laws and Regulations.

The IPA rendered an unqualified opinion on DO's FY 2002 and 2001 financial statements. The Independent Auditors' Report on Internal Control over Financial Reporting contained no reportable conditions. In addition, the Independent Auditors' report on Compliance with Laws and Regulations contained no instances of noncompliance.

The IPA also issued a management letter dated November 8, 2002, discussing certain issues that were identified during the audit, but were not required to be included in the audit report.

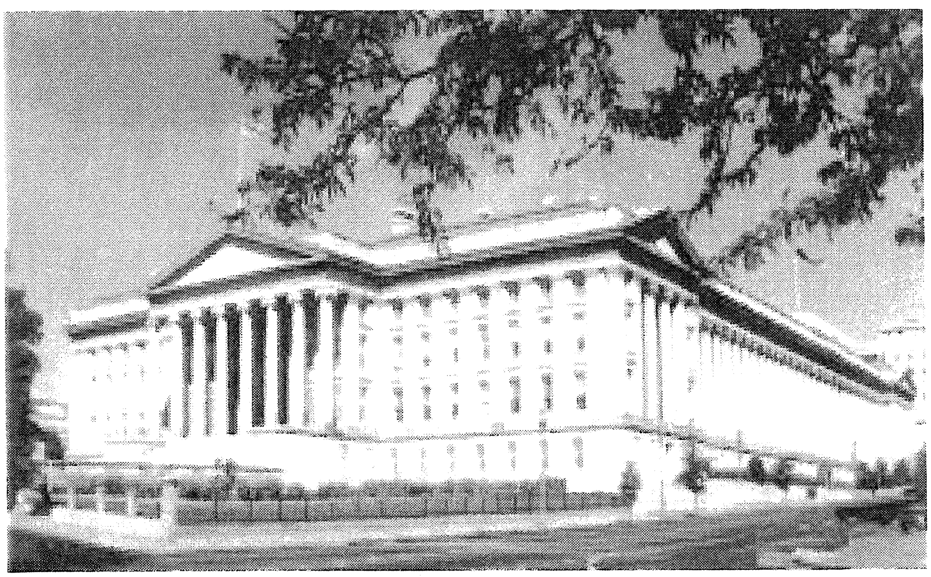
My staff's review of the IPA's working papers determined that the work was performed in accordance with generally accepted government auditing standards. Should you have any questions, please contact me at (202) 927-5430, or a member of your staff may contact Mike Fitzgerald, Director, Financial Audits at (202) 927-5789.

Attachment

UNITED STATES DEPARTMENT OF THE TREASURY

DEPARTMENTAL OFFICES

FISCAL YEAR 2002 FINANCIAL STATEMENTS



FISCAL YEAR 2002 FINANCIAL STATEMENTS

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KPMG

2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report on Financial Statements

The Inspector General, U.S. Department of the Treasury, and
Deputy Chief Financial Officer
U.S. Department of the Treasury:

We have audited the accompanying consolidated balance sheets of the U.S. Department of the Treasury's Departmental Offices (DO) as of September 30, 2002 and 2001; the related consolidated statements of net cost and consolidated statements of custodial activity for the years then ended; and the consolidated statement of changes in net position, combined statement of budgetary resources, and consolidated statement of financing for the year ended September 30, 2002. These financial statements are the responsibility of DO's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable provisions of Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 01-02 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of DO as of September 30, 2002 and 2001, its net costs, and custodial activity for the years then ended, and its changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations for the year ended September 30, 2002, in conformity with accounting principles generally accepted in the United States of America.

The information in the Required Supplementary Stewardship Information and Required Supplementary Information sections is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

DO has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued reports dated November 8, 2002, on our consideration of DO's internal control over financial reporting and its compliance with certain provisions of laws and regulations. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audits.

KPMG LLP

November 8, 2002

2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report on Internal Control over Financial Reporting

The Inspector General, U.S. Department of the Treasury, and
Deputy Chief Financial Officer
U.S. Department of the Treasury:

We have audited the accompanying consolidated balance sheets of the U.S. Department of the Treasury's Departmental Offices (DO) as of September 30, 2002 and 2001; the related consolidated statements of net cost and consolidated statements of custodial activity for the years then ended; and the consolidated statement of changes in net position, combined statement of budgetary resources, and consolidated statement of financing for the year ended September 30, 2002, and have issued our report thereon dated November 8, 2002. That report reflects that DO has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable provisions of Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

In planning and performing our audits described above, we considered DO's internal control over financial reporting by obtaining an understanding of DO's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02 and *Government Auditing Standards*. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982. The objective of our audit was not to provide assurance on DO's internal control. Consequently, we do not provide an opinion thereon.

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses under standards issued by the American Institute of Certified Public Accountants. Material weaknesses are conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. However, we noted no matters involving the internal control and its operation that we considered to be material weaknesses as defined above. The Exhibit presents the status of the prior year reportable condition.

Additional Procedures

We considered DO's internal control over Required Supplementary Information and Required Supplementary Stewardship Information by obtaining an understanding of DO's internal control, determining whether these internal controls had been placed in operation, assessing control risk, and performing tests of controls. Our procedures were not designed to provide assurance on internal control over Required Supplementary Information and Required Supplementary Stewardship Information, and, accordingly, we do not provide an opinion thereon.

We also noted other matters involving internal control and its operation that we have reported to the management of DO in a separate letter dated November 8, 2002.

This report is intended solely for the information and use of DO's management, the U.S. Department of the Treasury Office of Inspector General, OMB, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 8, 2002

U.S. Department of Treasury Departmental Offices
FY2002 Status of FY2001 Reportable Condition

<table>
<tr><th colspan="2">FY 2001 Property Finding</th></tr>
<tr><td colspan="2">Condition: Items under the $25,000 capitalization threshold were capitalized because vendor invoices were not inspected thoroughly by the staff accountants.</td></tr>
<tr><td>Management Response:
DO management communicated to property accountants the importance of adhering to the following capitalization policies:
• Items over $25,000 with a useful life of 2 or more years.
• Aggregate/bulk purchases of $250,000 with individual items over $5,000 and useful lives of 2 or more years.
• All items related to internal use software regardless of dollar amount.
DO is performing a sampling analysis of all property to ensure items are properly capitalized or expensed.</td><td>FY 2002 Test Results:
No exceptions were noted. All invoices reviewed under the $25,000 threshold were capitalized appropriately as they were bulk purchase items, partial payments, or related to a system in which management decided to capitalized all costs.</td></tr>
<tr><td colspan="2">Condition: One Treasury building renovation item was incorrectly expensed because it was assigned the improper object classification code.</td></tr>
<tr><td>Management Response:
Object classification codes assigned by the budget office upon requisition of the item determine whether the item will be capitalized or expensed in the system. Financial Management Division (FMD) has instructed the budget office to assign the appropriate budget/object classification codes and capitalize all Treasury building renovation items that meet the capitalization threshold.</td><td>FY 2002 Test Results:
Part of one reviewed purchase was incorrectly expensed in FY 2002. The exception amount of $100,928 was immaterial, at less than 0.3% of total additions.</td></tr>
<tr><td colspan="2">Condition: DO recorded one property item based on the cash disbursement for the item instead of the full invoice price.</td></tr>
<tr><td>Management Response:
DO management believes this was a rare occurrence and does not expect the same type of error in the future. In this case, two separate purchase orders were prepared to cover the total cost of one item and the wrong object classification code was assigned to one invoice. Because capitalization is based on the object classification code, the incorrect amount was capitalized. DO management has informed the budget office of how to properly assign object classification codes to ensure the appropriate items are capitalized.</td><td>FY 2002 Test Results:
No such exceptions were identified in the FY 2002 audit.</td></tr>
<tr><td colspan="2">Condition: DO was unable to provide the lease documentation for one capital lease item.</td></tr>
<tr><td>Management Response:
DO management has ensured property accountants are aware of the requirement to maintain lease documentation.</td><td>FY 2002 Test Results:
Capital leases are not common for DO, and DO did not enter into any new lease agreements in FY 2002. Conversations with FMD property accountants confirmed their awareness of the requirement to maintain lease documentation.</td></tr>
<tr><td colspan="2">Condition: The ITN Product Office did not require equipment users to report their physical inventory.</td></tr>
<tr><td>Management Response:
The items were newly purchased during FY 2001 and no inventory was performed. DO has informed the ITN Product Office to report their physical inventory similar to other DO operations.</td><td>FY 2002 Test Results:
DO has not performed a complete physical inventory of property since FY 1999. We recommend regular physical inventories be conducted and reconciliations between the inventory records and the general ledger be performed to help ensure property additions and disposals are accurately recorded.</td></tr>
</table>

2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report on Compliance with Laws and Regulations

The Inspector General, U.S. Department of the Treasury, and
Deputy Chief Financial Officer
U.S. Department of the Treasury:

We have audited the accompanying consolidated balance sheets of the U.S. Department of the Treasury's Departmental Offices (DO) as of September 30, 2002 and 2001; the related consolidated statements of net cost and consolidated statements of custodial activity for the years then ended; and the consolidated statement of changes in net position, combined statement of budgetary resources, and consolidated statement of financing for the year ended September 30, 2002, and have issued our report thereon dated November 8, 2002. That report reflects that DO has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable provisions of Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

The management of DO is responsible for complying with laws and regulations applicable to DO. As part of obtaining reasonable assurance about whether DO's financial statements are free of material misstatement, we performed tests of DO's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 01-02, including certain requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws and regulations applicable to DO. However, providing an opinion on compliance with laws and regulations was not an objective of our audit, and, accordingly, we do not express such an opinion.

KPMG

The results of our tests of compliance with the laws and regulations described in the preceding paragraph, exclusive of FFMIA, disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 01-02.

Under FFMIA, we are required to report whether DO's financial management systems substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements.

The results of our tests disclosed no instances in which DO's financial management systems did not substantially comply with the three requirements discussed in the preceding paragraph.

This report is intended solely for the information and use of DO's management, the U.S. Department of the Treasury Office of Inspector General, OMB, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 8, 2002

U.S. Department of the Treasury
Departmental Offices
Consolidated Balance Sheets
As of September 30, 2002 and 2001

	2002	2001
Assets		
Intragovernmental Assets		
Fund Balance with Treasury (Note 2)	$ 552,148,443	$ 551,118,666
Investments and Related Interest (Note 1)	944,137	969,000
Accounts Receivable and Related Interest (Note 1)	456,938	31,623,034
Other Assets (Note 3)	9,440,000	13,777,948
Total Intragovernmental Assets	**562,989,518**	**597,488,648**
Trade, Other Receivables, Net and Related Interest (Note 4)	2,038,497	1,504,050
Property, Plant and Equipment, Net (Note 5)	96,424,840	66,125,658
Other Assets (Note 3)	484,722	532,071
Total Assets	**$ 661,937,577**	**$ 665,650,427**
Liabilities		
Intragovernmental Liabilities		
Due to the General Fund	$ 1,859,789	$ 1,346,904
Other Liabilities (Note 6)	194,174,799	212,358,061
Total Intragovernmental Liabilities	**196,034,588**	**213,704,965**
Other Liabilities (Note 6)	67,619,523	58,334,425
Total Liabilities	**263,654,111**	**272,039,390**
Net Position		
Unexpended Appropriations	345,310,530	367,383,910
Cumulative Results of Operations	52,972,936	26,227,127
Total Net Position	**398,283,466**	**393,611,037**
Total Liabilities and Net Position	**$ 661,937,577**	**$ 665,650,427**

The accompanying notes are an integral part of these financial statements.

U.S. Department of the Treasury
Departmental Offices
Consolidated Statements of Net Cost
For the Years Ended September 30, 2002 and 2001

	2002	2001
Economic Program: Promote Prosperous and Stable American and World Economics		
Intragovernmental Costs	$ 8,023,513	$ 11,207,847
With Public	21,332,117	39,254,118
Total Costs	29,355,630	50,461,965
Less Earned Revenues	-	-
Net Program Costs	**29,355,630**	**50,461,965**
Financial Program: Manage the Government's Finances		
Intragovernmental Costs	2,330,475	4,886,638
With Public	20,735,878	26,091,048
Total Costs	23,066,353	30,977,686
Less Earned Revenues	-	-
Net Program Costs	**23,066,353**	**30,977,686**
Law Enforcement Program: Safeguard Our Financial Systems, Protect Our Nation's Leaders, and Secure a Safe and Drug Free America		
Intragovernmental Costs	176,786,565	147,691,998
With Public	21,672,336	12,478,257
Total Costs	198,458,901	160,170,255
Less Earned Revenues	-	-
Net Program Costs	**198,458,901**	**160,170,255**
Cost Not Assigned to Programs:		
Intragovernmental Costs	79,376,452	59,523,881
With Public	362,352,058	289,421,451
Total Costs	441,728,510	348,945,332
Less Earned Revenues Not Assigned to Programs	(245,336,423)	(240,530,338)
Net Costs Not Assigned to Programs	**196,392,087**	**108,414,994**
Net Cost of Operations	**$ 447,272,971**	**$ 350,024,900**

The accompanying notes are an integral part of these financial statements.

U.S. Department of the Treasury
Departmental Offices
Consolidated Statement of Changes in Net Position
For the Year Ended September 30, 2002

	Cumulative Results of Operations	Unexpended Appropriations
Beginning Balances	**$ 26,227,127**	**$ 367,383,910**
Budgetary Financing Sources:		
Appropriations Received	-	429,777,999
Appropriations Used	466,614,959	(466,614,959)
Appropriations Transferred in/out	-	18,008,829
Other Adjustments	(143,406)	(3,245,249)
Other Financing Sources:		
Transfers In/Out Without Reimbursement	399,604	-
Imputed Financing Sources	7,147,623	-
Total Financing Sources	**$ 474,018,780**	**$ (22,073,380)**
Net Cost of Operations	(447,272,971)	-
Ending Balances	**$ 52,972,936**	**$ 345,310,530**

The accompanying notes are an integral part of these financial statements.

U.S. Department of the Treasury
Departmental Offices
Combined Statement of Budgetary Resources
For the Year Ended September 30, 2002

Budgetary Resources		
Budgetary Authority	$	445,771,995
Unobligated Balance – Beginning of Year		206,940,322
Spending Authority from Offsetting Collections		296,078,073
Recoveries from Prior Year Obligations		87,295,305
Permanently Not Available		(5,726,249)
Total Budgetary Resources	**$**	**1,030,359,446**
Status of Budgetary Resources		
Obligations Incurred	$	857,528,159
Unobligated Balances Available - End of Year		136,344,349
Unobligated Balances Not Available - End of Year		36,486,938
Total Status of Budgetary Resources	**$**	**1,030,359,446**
Relationship of Obligations to Outlays		
Obligated Balance, Net-Beginning of Year	$	419,113,041
Obligations Incurred		857,528,159
Obligated Balance, Net-End of Year		(405,760,709)
Outlays:		
Disbursements		870,880,491
Spending Authority from Offsetting Collections and Adjustments		(383,373,378)
Net Outlays	**$**	**487,507,113**

The accompanying notes are an integral part of these financial statements.

U.S. Department of the Treasury
Departmental Offices
Consolidated Statement of Financing
For the Year Ended September 30, 2002

Obligations and Budgetary Resources		
Obligations Incurred	$	857,528,159
Less: Spending Authority from Offsetting Collections and Adjustments		(383,373,378)
Imputed Financing		7,147,623
Transfers In/Out		399,604
Total Obligations as Adjusted and Nonbudgetary Resources	**$**	**481,702,008**
Resources Not Funding Net Cost of Operations		
Change in Undelivered Orders and Unfilled Customer Orders	$	(14,774,731)
Budgetary Offsetting Collections/Receipts		(26,258)
Capitalized Costs		(38,938,578)
Total Resources Not Funding Net Cost of Operations	**$**	**(53,739,567)**
Costs Not Requiring Resources		
Depreciation and Amortization	$	13,560,051
Other		7,066,167
Total Costs Not Requiring Resources	**$**	**20,626,218**
Financing Sources Yet to be Provided	**$**	**(1,315,688)**
Net Cost of Operations	**$**	**447,272,971**

The accompanying notes are an integral part of these financial statements.

U.S. Department of the Treasury
Departmental Offices
Consolidated Statements of Custodial Activity
For the Years Ended September 30, 2002 and 2001

	2002	2001
Sources of Custodial Revenues and Collections		
Revenue Received		
Fees and Licenses	$ 12,958	$ -
Fines, Penalties, Interest and Other Revenues	13,553,329	7,116,526
Total Revenue Received	**$ 13,566,287**	**$ 7,116,526**
Accrual Adjustment	513,093	(314,220)
Total Revenue	**$ 14,079,380**	**$ 6,802,306**
Disposition of Revenues Received		
Amounts Provided to Fund the Federal Government	13,566,287	7,116,526
Accrual Adjustments	513,093	(314,220)
Total Disposition of Custodial Revenue and Collections	**$ 14,079,380**	**$ 6,802,306**
Net Custodial Revenue Activity	**$ -**	**$ -**

The accompanying notes are an integral part of these financial statements.

U.S. Department of the Treasury
Departmental Offices
Notes to the Financial Statements
September 30, 2002 and 2001

Note 1 – Summary of Significant Accounting Policies

Basis of Presentation

These financial statements have been prepared to report the financial position, net costs, changes in net position, budgetary resources, reconciliation of net costs to budgetary obligations, and custodial activity of the U.S. Department of the Treasury, Departmental Offices (DO) as required by the CFO Act of 1990 and the Government Management Reform Act (GMRA) of 1994, as amended. They have been prepared from the books and records of DO.

Reporting Entity

DO is comprised primarily of the following funds: Salaries and Expense (S&E) Appropriation, International Affairs (IA), Treasury Building and Annex Repair and Restoration (TBARR) Appropriation, General Fund receipts, Deposit Fund accounts, Clearing accounts, Working Capital Fund (WCF), Gift and Bequests Fund (GBF), Violent Crime Reduction Trust (VCRT) Fund, Sallie Mae Fund (SMF), Treasury Counter Terrorism Fund (TCTF), Office of Professional Responsibility (OPR), U.S. Community Adjustment & Investment Program (USCAIP), Automation Enhancement (AUEN), Departmental-Wide Systems and Capital Investments Program (DSCIP), Payment to DOJ-FSLIC Resolution (PTJ) Fund, Interagency Crime and Drug Enforcement Fund (ICDEF), International Affairs Technical Assistance, and Expanded Access to Financial Services. These funds are described below:

<u>The S&E Appropriation</u> was funded pursuant to P.L.106-554, to be available for the salaries and expenses of the Office of the Secretary of the Treasury. The S&E was enacted to provide resources for the policy development and analysis functions of the Office of the Secretary. The S&E Treasury fund symbol is 20_0101.

<u>The IA No-Year and Multi-Year Account Balances</u> consist primarily of financing from the Agency for International Development (AID) for Eastern Europe and Former Soviet Union program purposes. The IA Treasury symbol is 20_0171.

<u>The TBARR Appropriation</u> was enacted for the repair, alteration, and improvement of the Treasury Building and Annex. The TBARR Treasury fund symbol is 20X0108.

<u>The General Fund receipts account</u> is used to deposit funds not marked by law for a specific purpose.

The Deposit Fund accounts are used to temporarily hold receipts that are not easily identified. After identification, these funds are moved to the appropriate account.

Clearing accounts are used to temporarily hold funds pending posting to other applicable accounts.

The WCF was established pursuant to Section 401 of P.L. 91-614 and is available to fund expenses and acquisitions of equipment necessary for the maintenance and operation of administrative services that the Secretary of the Treasury, with the approval of the Director of the OMB, determines may be performed more advantageously and economically as central services. The Treasury fund symbol is 20X4501.

The GBF was established pursuant to P.L. 98-369, which gives the Secretary of the Treasury authority to accept, hold, administer, and use gifts and bequests of both real and personal property for the purpose of aiding or facilitating the work of the Department of the Treasury. There are no salary or benefit costs funded from GBF. The Treasury fund symbol is 20X8790.

The VCRT Fund was established pursuant to P.L. 103-329. The purpose of the Fund, among other things, is to provide funding for the necessary expenses of the Office of Enforcement for overseeing the implementation of the Violent Crime Control and Law Enforcement Act of 1994, as it relates to the jurisdiction of the Department of the Treasury. The Treasury fund symbol is 20X8527.

The SMF was established pursuant to P.L. 104-208, to provide enhanced financial safety and soundness oversight of the Student Loan Marketing Association by the Secretary of the Treasury. The legislation authorizes Treasury to assess Sallie Mae for the costs of oversight, beginning October 1, 1996, and to spend the assessment for oversight not to exceed $800,000 per year (adjusted for inflation). The Treasury fund symbol is 20X5407.

The TCTF was established pursuant to P.L. 104-208, the Omnibus Consolidated Appropriation Act of 1997. The Counter Terrorism Fund was established to reimburse Treasury organizations for the costs of providing support to counter, investigate, or prosecute terrorism, including payment of rewards in connection with these activities. The Treasury fund symbol is 20X0117.

The OPR Fund was funded pursuant to P.L. 105-61 of the Treasury, Postal Service and General Government Appropriation Act. The purpose of the fund is to coordinate oversight for the Office of the Under Secretary (Enforcement) regarding management and supervision on enforcement and regulatory matters. The Treasury fund symbol is 20_0116.

The USCAIP was established pursuant to the "Corporate Agreement" between the North American Free Trade Agreement (NAFTA), the United States Government, and the Government of Mexico. The purpose of the program is to provide financing for commercial activities that create job opportunities in communities that have been impacted by the changes in trade patterns due to NAFTA. Funding was also provided in P.L. 106-554 for the same purpose. The Treasury fund symbol is 20_0118.

The AUEN was established pursuant to P.L. 104-208 to provide for the development and acquisition of automatic data processing equipment, software and other computer services for the Department of the Treasury. The Treasury fund symbol is 20_0115.

The DSCIP was established pursuant to P.L. 106-554 for development and acquisition of automatic data processing equipment, software, and services for the Department of Treasury. The Treasury fund symbol is 20X0115.

The PTJ Fund was established pursuant to P.L. 104-208. The fund authorizes the Treasury to use funds made available to the FSLIC Resolution Fund under P.L. 103-327 to reimburse the Department of Justice (DOJ) for a reasonable amount of litigation expenses that are incurred in the defense of claims against the U.S. arising from the Financial Institution Reform, Recovery and Enforcement Act (FIRREA) and its implementation. The Treasury fund symbol is 20X0177.

The ICDEF Fund was established for the detection and investigation of individuals involved in organized crime drug trafficking. Funds are also available for cooperative efforts with state and local law enforcement. The Treasury fund symbol is 20_1501.

The International Affairs Technical Assistance Fund has two Treasury fund symbols that were enacted by P.L. 105-277 and 106-554, respectively. One fund symbol is utilized to support the operation and expenses of the International Financial Institution Advisory Commission and the International Monetary Fund Advisory Committee. The Treasury fund symbol is 11_1045. The other fund symbol provides for technical assistance to other countries in support of the responsibilities of the U.S. Treasury Department to formulate, conduct and coordinate the international financial polices of the United States. The Treasury fund symbol is 11X1045.

The Expanded Access to Financial Services Fund was funded pursuant to P.L. 106-554, to be available for development and implementation of programs to expand access to financial services for low – and moderate – income individuals. The Treasury fund symbol is 20X0121.

Basis of Accounting

DO's financial statements have been prepared from DO's accounting records in accordance with accounting principles generally accepted in the United States of America (GAAP). DO's financial statements are recorded on the accrual and budgetary bases. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and monitoring of budget authority through the various stages of execution, including allotments, obligations, and eventual outlays.

Revenues and Other Financing Sources

With the exception of WCF and GBF programs, DO programs receive the majority of the funding through appropriations or fund transfers. These funds receive annual, no-year, or multi-year appropriations that may be used, within statutory limits, for operating and capital expenditures. Additional amounts are obtained through reimbursements for services performed for other Federal agencies.

<u>S&E and other DO appropriations</u> recognize revenues at the time program and administrative expenses are incurred. For other types of DO funds, revenues are recognized when earned (i.e., goods delivered or services rendered).

<u>WCF advances</u> are recognized as revenues when earned (i.e., goods have been delivered or services rendered). Advances expended for equipment are recognized as expenses through depreciation, if capitalized, or at time of purchase.

<u>GBF</u> receives all of its funding from monetary gifts accepted from donors and interest received on invested funds. Monetary gifts are recognized as a financing source when deposited, and interest on invested funds is recognized as revenue when earned. Non-monetary gifts are recognized as revenues at the estimated fair market value of the gifts when they are officially received and accepted by the Department of the Treasury.

Fund Balance with Treasury

DO does not maintain cash in commercial bank accounts. Cash receipts and disbursements are processed by the U.S. Treasury. The balance of funds with the U.S. Treasury represent appropriated, revolving, and trust funds that are available to pay current liabilities and finance authorized purchase commitments relative to goods or services that have not been received.

Investment in U.S. Government Securities

Investments in U.S. Government securities are reported at cost, which approximates fair market value. Funds are invested in Treasury certificates (intragovernmental non-marketable securities) that matured and paid interest quarterly (or at redemption) until April 1, 2002, when they began paying interest monthly. It is the GBF's policy to invest as much as possible in Public Debt securities, while maintaining enough available cash to cover required GBF disbursements. Total cost of DO investments at September 30, 2002 and 2001 was $944,137 and $969,000, respectively.

Accounts Receivable

Accounts receivable is comprised of intragovernmental accounts receivable and non-entity receivables as described below. Total receivables at September 30, 2002 and 2001 were $456,938 and $31,623,034, respectively. The significant decrease in FY 2002 from FY 2001 primarily resulted from DO collecting outstanding receivables from the Executive Office of Asset Forfeiture and the Department of Justice, which comprised 78 percent of the outstanding balance at September 30, 2001. The remaining decrease is due to DO's emphasis on aggressively collecting receivables in the current year.

Intragovernmental (Federal) accounts receivable represent billed and unbilled costs on services provided to other Federal agencies/bureaus that do not advance funds to the WCF. Since these balances are expected to be fully collected, no allowance for estimated uncollectable accounts receivable has been established. The majority of the balance relates to WCF telecommunications services provided to the U.S. Department of Justice.

Non-entity receivables consist of civil monetary penalties assessed by the Office of Foreign Assets Control (OFAC) and billings for services related to the Freedom of Information Act. Funds received are not available for use by DO. An allowance for estimated uncollectible accounts receivable has been established based on prior year statistics.

Other Assets - Advances and Prepayments

Payment in advance of the receipt of goods and services are recorded as prepaid charges at the time of prepayment and recognized as expenses when the related goods and services are received.

Property, Plant and Equipment

The Treasury Complex (Main Treasury Building and Annex) was declared a national historical landmark in 1972. The Treasury Complex is treated as a multi-use heritage asset; as such, it is expected to be preserved indefinitely and it is capitalized only to the extent of its use as an office building.

With the exception of the Treasury Complex, the General Services Administration (GSA) provides land and buildings in which DO organizations operate. GSA charges DO rent comparable to commercial rental rates for similar properties.

DO started renovation of the Treasury Complex beginning in 1999 and expects to complete the entire renovation in fiscal year 2003. DO capitalizes the related disbursements meeting its capitalization policy, as follows:

> Individual property or equipment items with an initial acquisition cost of $25,000 or more are capitalized, given they have a service life of two years or greater. The bulk purchase capitalization threshold is $250,000. Individual items comprising a capitalized bulk purchase should have a minimum cost of $5,000 and a minimum useful life of two years.

Depreciation is applied using the straight-line method over an estimated useful life that is between 3-30 years.

All donated non-monetary assets are reflected as part of the GBF on a temporary basis until they have been officially transferred to the Treasury bureau that will benefit from the donated gift. Transfers are recorded in the fiscal year of transfer at the fair market value of the gift when received and accepted. The Department prepares a GBF report annually that reflects a complete inventory of all new gifts received and accepted by the Department in the fiscal year. This report is available for public inspection in compliance with the public disclosure requirement in P.L. 98-369.

Liabilities

Liabilities represent the amount owed by DO as the result of a transaction or an event that has occurred as of fiscal year-end. DO cannot make a payment to extinguish a liability in the absence of an appropriation, reimbursable agreement, or a transfer of funds. DO's liabilities can be abrogated by the government acting in its sovereign capacity.

Advances from others consist of remaining balances advanced from other Treasury bureaus or other Federal agencies that are available for incurring additional expenses and to cover expenses incurred but unbilled at the end of the fiscal year. On a quarterly basis, disbursements are identified by specific client and the advances from others liability balance is reduced.

Annual, Sick, and Other Leave

Annual leave is accrued when it is earned. The accrual is reduced when leave is taken. The balance in the accrued leave account reflects the pay rate in effect as of the end of the applicable fiscal year and all payroll related costs. To the extent current or prior year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources. Sick leave and other types of non-vesting leave are expensed when taken.

Retirement Plan

Most DO employees hired prior to January 1, 1984 participate in the Civil Service Retirement System (CSRS). For FY 2002 and FY 2001, DO contributed 8.51 percent of basic pay and the employees contributed 7 percent of basic pay for a total contribution rate of 15.51 percent. The cost of providing CSRS benefits, which is estimated at 24.2 percent by the Office of Personal Management (OPM), is more than the amounts contributed by DO and the employees.

On January 1, 1987, the Federal Employees' Retirement System (FERS) was established by Congress and went into effect pursuant to Public Law 99-335. Employees hired after December 31, 1986 are automatically covered by FERS and Social Security. A primary feature of FERS is that it offers a savings plan to which DO automatically contributes 1 percent of basic pay and matches employee contributions up to an additional 4 percent of basic pay. For most employees hired after December 31, 1983, DO also contributes the employers matching share for Social Security. For the FERS basic benefit, the employee contributes 0.8 percent of their basic pay, while DO contributes 10.7 percent of basic pay, for a total contribution rate of 11.50 percent in FY 2002 and FY 2001. The cost of providing a FERS basic benefit, as provided by OPM, is equal to the amounts contributed by DO and the employees, therefore the plan is fully funded.

According to SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, bureaus are required to report the full cost of providing pension benefits to include the cost financed by OPM. The additional pension expense totaling $2,924,623 is included as an expense and as an imputed financing source in the DO financial statements.

DO does not report CSRS assets, FERS assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to retirement plans, because the accounting for and reporting of such amounts is the responsibility of OPM.

As in the case of Federal retirement plans, OPM, rather than DO, reports the liability for future payments to retired employees who participate in the Federal Employees Health Benefits Program (FEHBP) and Federal Employees Group Life Insurance (FEGLI) Program. Currently, DO does not recognize expenses or contribute funds for the cost to provide health benefits and life insurance to its retirees. The FEHBP cost factor (provided by OPM) applied to a weighted average number of employees enrolled in the FEHBP is $3,473. The FEHBP amount totaling $4,204,935 is included as an expense and imputed financing source in the DO financial statements. The FY 2002 FEGLI cost factor for employees enrolled in the FEGLI program is 0.0002 percent of their basic pay. The FEGLI amount totaling $18,065 is included as an expense and imputed financing source in the DO financial statements.

In addition to requiring bureaus to record the full cost for pensions and other retirement benefits, SFFAS No. 5 also requires bureaus to recognize an expense and liability for Other Post-Retirement Benefits (OPEB), which includes all types of benefits provided to former or inactive (but not retired) employees, their beneficiaries, and covered dependents. DO recognizes an expense and liability for OPEB when a future outflow or other sacrifice of resources is probable and measurable on the basis of events occurring on or before the end of the fiscal year.

Workers' Compensation

A liability is recorded for estimated future payments to be made for workers' compensation pursuant to the Federal Employees' Compensation Act (FECA). The FECA program is administered by the U.S. Department of Labor (Labor), which initially pays valid claims and subsequently seeks reimbursement from Federal agencies employing the claimants.

Reimbursement to Labor for payment made occurs approximately two years subsequent to the actual disbursement. Budgetary resources for this liability are made available to DO as part of its annual appropriation from Congress in the year in which the reimbursement takes place. DO's accrued liability to Labor for payments made on its behalf as of September 30, 2002 and 2001 is $1,311,254 and $1,384,895, respectively.

Labor determines the amount of actuarial liability for the Department of the Treasury as a whole. Below is a description of how Labor determines the actuarial liability.

The liability for future workers' compensation benefits includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred but not reported claims. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. Consistent with past practice, these projected annual benefit payments have been discounted to present value using OMB's economic assumptions for 10-year Treasury notes and bonds. Interest rate assumptions utilized for discounting were as follows:

2002	2001
5.20% in year 1	5.21% in year 1
5.20% in year 2 and thereafter	5.21% in year 2 and thereafter

To provide more specifically for the effects of inflation on the liability for future workers' compensation benefits, wage inflation factors (cost of living adjustments or COLAs) and medical inflation factors (consumer price index medical or CPIMs) were applied to the calculation of projected future benefits. These factors were also used to adjust the methodology's historical payments to current year constant dollars.

The compensation COLAs and CPIMs used in the projections for various charge back years (CBY) were as follows:

2002

CBY	COLA	CPIM
2003	1.80%	4.31%
2004	2.67%	4.01%
2005	2.40%	4.01%
2006+	2.40%	4.01%

2001

CBY	COLA	CPIM
2002	3.00%	4.15%
2003	2.56%	4.09%
2004	2.50%	4.09%
2005+	2.50%	4.09%

The model's resulting projections were analyzed to insure that the estimates were reliable. The analysis was based on two tests: (1) a comparison of the percentage change in the liability amount by agency to the percentage change in the actual payments, and (2) a comparison of the ratio of the estimated liability to the actual payment of the beginning year calculated for the current projection to the liability-payment ratio calculated for the prior projection.

Labor determines the actuarial liability amount for Treasury. Treasury then allocates the total to its bureaus, including DO, based on payment history for the bureaus. The net present value of estimated payments will require future funding. DO's estimated actuarial FECA liability as of September 30, 2002 and 2001 is $8,021,873 and $8,686,129, respectively.

Capital Leases

Summary of Capital Leases:	2002	2001
Equipment	$ 2,199,042	$ 2,279,042
Accumulated Depreciation	439,808	299,904

At September 30, 2002, DO had one capital lease which expires August 2003. The imputed interest rate on the lease is 9% with a monthly payment of $69,929. Future lease payments under the capital lease are as follows:

FY 2003 payments remaining	699,290
Less: imputed interest	(28,001)
Net capital lease liability	$ 671,289

Net Position

Unexpended Appropriations represent the amount of spending authorized as of year-end that has not been expended. No-year appropriations remain available for obligation until expended. Annual appropriations remain available for upward or downward adjustment of obligations until expired.

Cumulative Results of Operations represents the cumulative results of operations since inception for all applicable DO funds. Included as a reduction in cumulative results of operations, are liabilities incurred by the Department that will require funding from future appropriations. Liabilities incurred requiring funding from future appropriations include accumulated annual leave earned but not taken, accrued workers' compensation, capital lease requirements, and contingent liabilities.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Management believes that any such differences would not have a material impact on the financial statements.

Note 2. Fund Balance with Treasury

	2002	2001
Appropriated Funds	$ 328,549,352	$ 358,935,568
Trust Funds	5,733,730	13,188,630
Revolving Fund	217,865,361	178,994,468
Total	$ 552,148,443	$ 551,118,666

Note 3. Other Assets

	2002	2001
Intragovernmental		
Advances	$ 9,152,500	$ 13,161,876
Prepayments	287,500	616,072
	$ 9,440,000	$ 13,777,948
Other		
Advances	$ 484,722	$ 95,599
Prepayments	-	436,472
	$ 484,722	$ 532,071

Note 4. Trade, Other Receivables, Net and Related Interest

Trade, Other Receivables, Net and Related Interest was comprised of the following at September 30, 2002 and 2001:

	2002	2001
Accounts Receivable	$ 178,709	$ 157,146
Trade Receivable	2,234,502	1,685,741
Interest Receivable	20,353	29,866
Penalties and Fines	7,144	8,417
Less Allowance	(402,211)	(377,120)
Total	$ 2,038,497	$ 1,504,050

Note 5. Property, Plant and Equipment, Net

Property, Plant and Equipment, Net was comprised of the following at September 30, 2002 and 2001:

FY 2002

Description	Depreciation Method	Service Life	Acquisition Cost	Accumulated Depreciation	Net Book Value
Structures, Facilities	S/L	30 YRS	$ 73,657,483	$ (2,934,799)	$ 70,722,684
Internal Use Software	S/L	5 YRS	4,441,917	(607,920)	3,833,997
Equipment	S/L	5 YRS	51,836,730	(31,904,940)	19,931,790
Assets under Capital Lease	S/L	10 YRS	2,199,042	(439,808)	1,759,234
Other	S/L	N/A	177,135	-	177,135
Total			$132,312,307	$ (35,887,467)	$ 96,424,840

FY 2001

Description	Depreciation Method	Service Life	Acquisition Cost	Accumulated Depreciation	Net Book Value
Structures, Facilities	S/L	30 YRS	$ 44,739,588	$ -	$ 44,739,588
Internal Use Software	S/L	5 YRS	2,210,018	(380,525)	1,829,493
Equipment	S/L	5 YRS	39,337,307	(21,937,003)	17,400,304
Assets under Capital Lease	S/L	10 YRS	2,279,042	(299,904)	1,979,138
Other	S/L	N/A	177,135	-	177,135
Total			$ 88,743,090	$ (22,617,432)	$ 66,125,658

Note 6. Other Liabilities

Other Liabilities was comprised of the following at September 30, 2002 and 2001:

A. Other Liabilities (Intragovernmental)	**2002**	**2001**
Accounts Payable & Related Interest	$ 10,255,640	$ 35,846,936
Advances & Prepayments, Current	16,510,714	9,564,901
Advances & Prepayments, Non- Current	166,095,410	165,391,251
Liability for Deposit Funds & Suspense Accts, Current	1,781	14,255
Liability for Deposit Funds & Suspense Accts, Non-Current	-	155,823
Actual FECA Benefits Paid By Labor & Billed to Agency	1,311,254	1,384,895
Total Other Liabilities (Intragovernmental)	$ 194,174,799	$ 212,358,061

B. Other Liabilities	**2002**	**2001**
Accounts Payable & Related Interest	$ 4,217,525	$ 13,396,467
Accrued Payroll and Benefits, Current	13,069,222	7,507,941
Other Accrued Liabilities, Current	41,136,951	24,492,753
Capital Lease Liabilities, Current	671,289	910,581
Capital Lease Liabilities, Non-Current	-	735,700
Advances & Prepayments, Current	113,636	2,075,089
Liabilities for Deposit Fund & Suspense Accounts	89,027	229,765
Actuarial FECA Liability	8,021,873	8,686,129
Contingent Liability	300,000	300,000
Total Other Liabilities	$ 67,619,523	$ 58,334,425

U.S. DEPARTMENT OF THE TREASURY
DEPARTMENTAL OFFICES
REQUIRED SUPPLEMENTARY INFORMATION

U.S. Department of the Treasury
Departmental Offices
Required Disaggregated Statement of Budgetary Resources
For the Year Ended September 30, 2002

	Appropriated Funds	Revolving Funds	Trust Funds	Total
Budgetary Resources				
Budget Authority	$ 445,745,737	$ -	$ 26,258	$ 445,771,995
Unobligated Balance – Beginning of Year	174,785,393	30,496,396	1,658,533	206,940,322
Spending Authority from Offsetting Collections Earned	18,475,638	277,602,435	-	296,078,073
Recoveries of Prior Year Obligations	45,538,089	41,140,707	616,509	87,295,305
Permanently Not Available	(5,726,249)	-	-	(5,726,249)
Total Budgetary Resources	$ 678,818,608	$ 349,239,538	$ 2,301,300	$1,030,359,446
Status of Budgetary Resources				
Obligations Incurred	$ 535,285,420	$ 321,606,102	$ 636,637	$ 857,528,159
Unobligated Balances Available	107,046,250	27,633,436	1,664,663	136,344,349
Unobligated Balances Not Available	36,486,938	-	-	36,486,938
Total Budgetary Resources	$ 678,818,608	$ 349,239,538	$ 2,301,300	$1,030,359,446
Outlays				
Obligated Balance, Net-Beginning of the Year	$ 247,232,670	$ 159,381,274	$12,499,097	$ 419,113,041
Obligations Incurred	535,285,420	321,606,102	636,637	857,528,159
Obligated Balance, Net-End of Year	(210,511,694)	(190,231,925)	(5,017,090)	(405,760,709)
Outlays:				
Disbursements	572,006,396	290,755,451	8,118,644	870,880,491
Less: Spending Authority from Offsetting Collections and Adjustments	(64,013,728)	(318,743,142)	(616,508)	(383,373,378)
Net Outlays	$ 507,992,668	$ (27,987,691)	$ 7,502,136	$ 487,507,113

U.S. Department of the Treasury
Departmental Offices
Working Capital Fund
Required Segment Information
For the Years Ended September 30, 2002 and 2001

	2002	2001
Fund Balance with Treasury	$ 217,865,361	$ 189,877,670
Accounts Receivable	365,003	30,203,461
Property, Plant and Equipment, net	20,857,286	16,911,623
Other Assets	1,612,448	1,482,188
Total Assets	$ 240,700,098	$238,474,942
Accounts Payable	$ 35,137,902	$ 38,938,605
Other Liabilities	205,562,196	199,536,337
Total Liabilities	$ 240,700,098	$ 238,474,942
Net Position - Cumulative Results of Operations	$ -	$ -
Total Liabilities and Net Position	$ 240,700,098	$ 238,474,942
Total Costs	$ 270,603,132	$ 269,361,100
Exchange Revenue	270,603,132	269,361,100
Other Financing Sources	-	-
Excess of Revenues and Financing Sources over Costs	$ -	$ -

U.S. DEPARTMENT OF THE TREASURY
DEPARTMENTAL OFFICES
REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

U.S. Department of the Treasury
Departmental Offices
Required Supplementary Stewardship Information
As of September 30, 2002

Heritage Assets

The Treasury Complex (Main Treasury Building and Annex) was declared a National historical landmark in 1972. The condition of the Treasury Complex is considered good.

Stewardship Land

The land associated with the Treasury Complex was also declared a National historical landmark in 1972.